

#### Members

Sen. Becky Skillman, Chairperson  
Sen. Teresa Lubbers  
Sen. Allen Paul  
Sen. Mark Blade  
Sen. Earline Rogers  
Sen. Larry Lutz  
Rep. Robert Kuzman  
Rep. David Crooks  
Rep. John Frenz  
Rep. Robert Cherry  
Rep. Jack Lutz  
Rep. David Yount



## INTERIM STUDY COMMITTEE ON ECONOMIC DEVELOPMENT ISSUES

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(Adopted May 26, 1999)

### MEETING MINUTES<sup>1</sup>

Meeting Date: August 3, 1999  
Meeting Time: 1:00 P.M.  
Meeting Place: State House, 200 W. Washington St.,  
Room 431  
Meeting City: Indianapolis, Indiana  
Meeting Number: 1

**Members Present:** Sen. Becky Skillman, Chairperson; Sen. Mark Blade; Sen. Earline Rogers; Sen. Larry Lutz; Rep. Robert Kuzman; Rep. David Crooks; Rep. John Frenz; Rep. Robert Cherry; Rep. Jack Lutz.

**Members Absent:** Sen. Teresa Lubbers; Sen. Allen Paul; Rep. David Yount.

Senator Becky Skillman, the Chair of the Committee, called the Committee to order at 1:00 P.M. After the introduction of the Committee members, Sen. Skillman described the topics that the Legislative Council had requested the Committee to study: (1) economic development and job creation issues in Indiana; (2) the statutorily mandated evaluations of

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<sup>1</sup> Exhibits and other materials referenced in these minutes can be inspected and copied in the Legislative Information Center in Room 230 of the State House in Indianapolis, Indiana. Requests for copies may be mailed to the Legislative Information Center, Legislative Services Agency, 200 West Washington Street, Indianapolis, IN 46204-2789. A fee of \$0.15 per page and mailing costs will be charged for copies. These minutes are also available on the Internet at the General Assembly homepage. The URL address of the General Assembly homepage is <http://www.ai.org/legislative/>. No fee is charged for viewing, downloading, or printing minutes from the Internet.

the effectiveness of tax abatement programs and local redevelopment commissions to create new jobs, increase income, and increase the tax base in Indiana; and (3) the impact of changes in gaming laws in surrounding states on Indiana's gaming industry.

Sen. Skillman then recognized Mr. Tom McKenna, the Executive Director of the Indiana Department of Commerce. Mr. McKenna began by noting that the Department of Commerce has focused on: (1) working with local communities to preserve the employment base and to attract new jobs; and (2) strengthening foreign trade and foreign investment in Indiana. He described a number of Indiana employers that are in the process of adding new jobs or that have decided to retain Indiana jobs, and he also reported on recent international trade missions and trade initiatives affecting Indiana.

Mr. McKenna pointed out that Indiana's foreign exports were over \$13.4 billion in 1998, which represents an increase of 2% from the previous year. He noted that the United States as a whole had suffered a 1% decrease in direct exports over this period. Mr. McKenna briefly explained that in 1998 more than \$14 million in Training 2000 grant funds were allocated; more than \$1.8 million was allocated from the Industrial Development Grant Fund; and more than \$34 million in Economic Development for a Growing Economy ("EDGE") credits were allocated.

He then stated that the Department of Commerce believes a number of economic development successes had been achieved during the 1999 Session of the General Assembly: \$1.3 billion in tax cuts; the creation of the Twenty-First Century Research and Technology Fund; funding for the Internet 2; certain changes to the Capital Access Program and the Industrial Development Grant Fund; and the creation of the community college system. He listed as disappointments: (1) the General Assembly's failure to pass legislation concerning the research and development tax credit, property tax abatements for research and development equipment, and brownfield tax credits; (2) the failure to address the tax structure for financial institutions and insurance companies; and (3) the failure to enact a full-day kindergarten funding program.<sup>2</sup>

Mr. McKenna then commented on a number of other economic development issues, including: (1) the need to take advantage of research conducted in Indiana's institutions of higher education; (2) the fact that capital formation can be enhanced; and (3) a large percentage of Indiana's college graduates leave the state.

Senator Skillman asked Mr. McKenna if there were any particular issues that the Department of Commerce wanted the Committee to review, and Mr. McKenna stated that the Committee should examine the research and development income tax credit, property tax abatements for research and development equipment, and the banking and insurance issues left from the last legislative session.

Representative Jack Lutz asked Mr. McKenna if the studies prepared by the Jobs Council had been useful. Mr. McKenna answered that the studies had been very helpful, and that they had demonstrated how important job retention was to those involved in economic development.

Senator Earline Rogers commented that she would like to see the Committee to study the economic development impact of gaming. Senator Skillman noted that the Committee would at a later date hold a meeting at which gaming issues would be studied.

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<sup>2</sup>Copies of written material distributed by Mr. McKenna to the Committee are on file in the Legislative Information Center. See footnote 1.

Sen. Skillman then recognized Ms. Wendy Dant of the Indiana Rural Development Council ("IRDC"). Ms. Dant explained that the IRDC was a partnership of local, state, and federal government, non-profit organizations, and for-profit businesses. She noted, however, that while the IRDC does not charge for its services, it is not a funding source for rural development projects.

Ms. Dant listed a number of facts concerning rural areas:

- \* 64 of Indiana's 92 counties are rural
- \* nationally, there is a growth in population in rural areas
- \* only 6.3% of the rural population lives on farms
- \* approximately 90% of rural workers have non-farm jobs
- \* the rural population that is less than age 65 is growing faster than the rural population that is age 65 or older

She then described what she believed to be the barriers to rural economic development:

- \* lack of money for planning
- \* infrastructure needs (especially wastewater, water, and transportation)
- \* telecommunications needs (including the need to not let rural communities be left behind as the economy shifts toward high-tech, research, or service jobs)
- \* lack of housing
- \* workforce training issues
- \* land use issues

Ms. Dant noted that rural areas often simultaneously face a number of economic development issues, such as infrastructure needs or land-use issues, that can at times be overwhelming for smaller units of local government. She explained that one way in which the IRDC assists rural communities is by providing information to those communities. As an example, Ms. Dant briefly described the IRDC's participation in a working group to help communities identify wastewater funding options.

Senator Mark Blade asked whether Indiana had a comprehensive strategy for rural economic development. Ms. Dant answered that the IRDC may be the appropriate entity to create such a strategic plan, and she stated that she would mention this to the IRDC's board of directors. Senator Skillman asked what legislation the IRDC thought would be the most useful, and Ms. Dant responded that additional money for rural development planning would be of great benefit. Representative Robert Kuzman asked Ms. Dant whether the key to rural development was infrastructure, and Ms. Dant responded that it depended on the particular location, but that most rural areas have expensive infrastructure needs. Senator Rogers questioned Ms. Dant concerning the extent to which riverboat gaming affected rural economic development, and Ms. Dant answered that because of riverboat gaming in Indiana some rural governmental units have more money.<sup>3</sup>

Sen. Skillman then recognized Mr. Jim Plump, President of the Indiana Economic Development Association ("IEDA"). Mr. Plump began by explaining that the IEDA is an organization of more than 300 economic development professionals representing economic development organizations, utility companies, and developers. He stated that the IEDA believes it is important to keep economic development issues before the public during good economic times, when it is easy to forget about these issues or give them a lower priority.

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<sup>3</sup>Copies of an outline of Ms. Dant's testimony are on file in the Legislative Information Center. See footnote 1.

Mr. Plump stated that the state's good economic conditions cannot continue indefinitely, so it is therefore necessary to continue providing training funds, infrastructure funds, and other economic development funding even during times of low unemployment.

Mr. Plump then described four policy positions taken by the IEDA:

- (1) the IEDA supports tax abatements for research and development related equipment; this will help in the recruiting and development of "high tech" business;
- (2) the IEDA supports the existing schedule for real and personal property tax abatements;
- (3) the IEDA favors total elimination of the inventory tax in a manner that does not put additional burden on individual property owners; it may be necessary to supplement the lost taxes with State surplus revenues or other revenues so that no local revenues are lost and no property taxes are shifted onto other classes of taxpayers; and
- (4) the IEDA supports reasonable tax reform that does not adversely impact outstanding tax increment financing ("TIF") bonds or other municipal bonds

Sen. Skillman then recognized Ms. Linda Williamson of the Bloomington Economic Development Corporation. Ms. Williamson stated that earlier that day Otis Elevator Corporation had announced that 165 jobs would be eliminated at its plant in Bloomington. She said that the General Electric plant in Bloomington was also at risk, because of the possibility that it would move jobs to a plant in Mexico. Ms. Williamson noted that General Electric's inventory by itself was 5% of Bloomington's property tax base. She predicted that the average wage paid in Bloomington would drop by approximately \$1.00 per hour if General Electric were to close its Bloomington plant.

Ms. Williamson stated that existing economic development tools are mostly centered on the creation of new jobs, and that there is a need to fund mechanisms for job retention. She also noted that high tech businesses do not add as much assessed valuation to the local property tax base as manufacturing businesses traditionally have, so there is a need to examine the mix of local government revenue sources and possibly give local governments more flexibility with the county option income taxes.

In response to a question from Senator Rogers, Mr. Plump stated that some IEDA members do work in areas containing riverboats, and that it is important to look at the potential of using gaming revenues for economic development.

Senator Rogers commented that the newly enacted tax credit for inventory or business personal property would affect cities with large urban enterprise zones. She predicted that the credit would make the inventory tax credits in enterprise zones a relatively less important economic development incentive. Representative David Crooks stated that even with a reduction in inventory taxes, it would be extremely difficult to compete with very low wage labor in countries such as Mexico. Senator Skillman pointed out that these same competitive pressures are felt, although to a lesser degree, in competition with southern and western states in the United States. Representative Bob Cherry noted that when considering the comments Mr. Plump had made concerning TIF bonds and districts, it was important to keep in mind that the growth in the tax base in those districts did not directly benefit local government.<sup>4</sup>

Senator Skillman next recognized Ms. Chris Hastings, representing the Indiana Enterprise Zone Association. Ms. Hastings began by stating her agreement with Senator Rogers'

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<sup>4</sup>Copies of Mr. Plump's testimony are on file in the Legislative Information Center. See footnote 1.

comments concerning the effect of inventory tax reduction on incentives to invest within an enterprise zone. She said that the inventory tax relief included in the 1999 budget act might cut participation in the enterprise zone program by up to 50%.

She then explained to the Committee that there are currently 21 enterprise zones in Indiana, mostly in larger urban areas, and that these zones attempt to use tax incentives to counter disincentives to investment in urban areas, such as older infrastructure and a lack of transportation for urban workers. Ms. Hastings stated that if a business is benefitted by claiming an enterprise zone tax incentive, it is required to re-invest these savings in the zone.

Ms. Hastings commented that the enterprise zone legislation was enacted in the 1980s, and it was designed to assist manufacturing business. She suggested that it would be worthwhile to consider redesigning the enterprise zone tax incentives to fit with the changing economy. Ms. Hastings also pointed out that a recent Indiana Tax Court ruling concerning the enterprise zone loan interest credit would now allow banks to claim the credit without re-investing in an enterprise zone, and that the General Assembly should consider addressing this ruling.<sup>5</sup>

Senator Rogers commented further that under existing law gaming companies were not allowed to claim enterprise zone incentives.

Senator Skillman next recognized Ms. Julie Newland of Eli Lilly and Company. Ms. Newland began by noting that Lilly had invested over \$1.8 billion in research and development in 1998, a 27% increase from 1997, and that Lilly had added 800 jobs in Indiana during that period. She then briefly described Lilly's plans to invest approximately \$1 billion in Indiana over the next decade.

Ms. Newland stated that Lilly was concerned that Indiana's research and development income tax credit had not been extended by the General Assembly during the 1999 legislative session. She explained that the credit is currently scheduled to expire at the end of 1999.

Ms. Newland also commented that the economic development policies in Indiana's tax code are a "patchwork quilt" designed when heavy industry was the base of Indiana's economy. She commented that Lilly believes there are three research and development tax policies that are important to successful economic development:

- (1) reauthorizing the research and development income tax credit;
- (2) extension of personal property tax abatement to research and development equipment; and
- (3) enacting a sales and use tax exemption for research and development equipment.

Senator Skillman then recognized Mr. Terry Magid, State Tax Director for Lilly. Mr. Magid briefly described the history and purpose of Indiana's research and development income tax credit. He noted that Indiana was one of the first states to enact such a credit. He explained that the credit was scheduled to expire December 31, 1999.

Mr. Magid stated that Indiana's research and development credit is the only such credit that contains an "apportionment limitation." Mr. Magid explained that the Indiana provision

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<sup>5</sup>Copies of written material distributed to the Committee by Ms. Hastings are on file in the Legislative Information Center. See footnote 1.

provides a credit for increased research and development over a base period in an amount equal to the lesser of: (1) a company's total research and development spending in Indiana; or (2) the company's nationally apportioned research and development spending. He noted that for companies in Indiana with most of their sales outside the state, this second limitation (the "apportionment" limit) results in a credit that does not reflect all of their research and development spending in Indiana.

Senator Skillman recognized Mr. Larry Stroble, representing Eli Lilly and Company. Mr. Stroble commented that the apportionment limit in the credit actually provides an incentive for an Indiana company doing business nationwide to put the research and development portion of its business in another state. He suggested that the apportionment limit should be eliminated, and that the credit should be based on research and development spending in Indiana.<sup>6</sup>

Mr. Braumbarger, President of Bitwise Solutions, was then recognized by Senator Skillman. Mr. Braumbarger explained that his firm employed 12 persons and was in the business of e-commerce enablement. He noted his firm was a member of the Indiana Research and Development Coalition.

Mr. Braumbarger stated that the recent creation of the Indiana Twenty-First Century Research and Technology Fund was a significant economic development step. He also pointed out that it was important to consider how the location of the Internet 2 could be leveraged for additional economic development. He did state, however, that the culture in Indiana was not particularly conducive to high tech business or information technology business.

He suggested that the Committee consider: (1) strengthening the roles played by Indiana's universities; and (2) providing business an incentive for hiring Indiana graduates.

Senator Skillman then recognized Mr. Tom Harmon, the Chairman of the Build Indiana Council ("BIC"). Mr. Harmon began by explaining that the BIC is a state-wide organization representing approximately 500 Indiana companies in the construction industry.

He then stated that Indiana's roads and highways were integral to the state's economic development, and that firms consider the transportation system when looking at costs of doing business. According to Mr. Harmon, almost \$179 billion worth of goods are delivered annually from Indiana sites, and approximately 77% of the total value of goods shipped from Indiana are shipped by truck. He noted that since 1970, there has been a 540% increase in the loads carried on Indiana highways.

Mr. Harmon stated that given the importance of roads to economic development, it is necessary for the state to plan for the long-term maintenance and development of the highway system. He said that Indiana's highway construction program was at an all-time high, but that funding highway construction and maintenance from the state's budget surplus was not a long-term solution.

Senator Skillman commented that infrastructure needs were basic needs that must be met before economic development can occur. Senator Blade asked whether the emphasis should be on new projects or preventive maintenance. Mr. Harmon answered that in order

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<sup>6</sup>Copies of Ms. Newland's testimony and written material distributed by Mr. Stroble and Mr. Magid are on file in the Legislative Information Center. See footnote 1.

to support economic development it is necessary to do both.<sup>7</sup>

Senator Skillman next recognized Mr. Jesse Moore of the Indiana Chamber of Commerce. Mr. Moore provided members of the Committee with summaries of the Chamber of Commerce's publication "Blueprint for a Dynamic Small Business Community." He stated that he had two points to make to the Committee: (1) small business is vital to economic development in Indiana; and (2) there is a lack of state economic development planning.

According to Mr. Moore, studies by the Chamber of Commerce demonstrate that it is important to: (1) strengthen education in Indiana; (2) improve high-risk capital resources to assist start-up businesses; (3) increase the rate of technology transfer and turn research into marketable products; and (4) streamline the processes and groups that help small businesses.

Mr. Moore then stated that, other than the plan prepared by the Indiana Economic Development Council ("IEDC"), the State of Indiana does not have a plan for economic growth, and state government should either embrace IEDC's plan or create its own.

Representative John Frenz noted that Mr. Moore's first suggestion concerned improving Indiana's education system. Representative Frenz commented that he has not heard from business owners who say they will not locate in Indiana because of the state's education system. Mr. Moore responded that the effects of the education system are also seen when businesses cannot expand because of a lack of qualified workers.

Senator Rogers asked Mr. Moore if it was accurate to say that state government did not have an economic development plan. Mr. Moore responded that he had not been able to find a document that included all of the State's economic development plans.<sup>8</sup>

Representative Lutz commented that while there are a number of organizations and government departments concerned with economic development, he believes there is a lack of coordinated planning between these entities.

Senator Skillman next recognized Mr. Maclyn Parker, representing the Indiana Economic Development Council. Mr. Parker stated that the IEDC is charged with preparing a strategic plan for Indiana's economy. He explained that the IEDC had in the past produced three plans, and that some parts of those plans had been embraced by state government and the business community, while other parts had not. Mr. Parker said that the IEDC's latest plan focused on the fact that Indiana needs to upgrade the quality of its jobs, because the state is falling behind in average wage per job.

Mr. Graham Toft, President of the IEDC, was then recognized by Senator Skillman. Mr. Toft began by noting that in the late 1950s, Indiana had a higher per capita income than the United States average, but that Indiana's per capita income has fallen to 91% of the national average. He explained that, in real dollar terms, the national average wage per job has increased, while Indiana's wage per job has been fairly stagnant. Mr. Toft also stated that Indiana's productivity in manufacturing is above the national average, but that its productivity in services is below average.

Mr. Toft then described six goals that had been included in the IEDC's latest strategic plan

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1. <sup>7</sup>Copies of Mr. Harmon's testimony are on file in the Legislative Information Center. See footnote

<sup>8</sup>Copies of written material distributed by Mr. Moore to the Committee are on file in the Legislative Information Center. See footnote 1.

for Indiana, "Break Away Growth":

- (1) raise Indiana per capita income and average annual wages above the national average;
- (2) attain the best purchasing power of any state in the nation;
- (3) have the lowest poverty rate of any state in the Midwest;
- (4) bring Indiana's productivity above the national average and have it rank the highest in the Midwest;
- (5) have the highest "livable place rating" in the Midwest; and
- (6) have the highest rate of growth in high skill, high pay jobs in the Midwest.

According to Mr. Toft, it is important to: (1) improve the performance of Indiana's "mainstay" industries; (2) improve Indiana's basic business and tax climate; and (3) accelerate the development of "frontier" industries and high growth / high pay industries.

Senator Skillman and Senator Blade questioned Mr. Toft concerning the IEDC's presentation of its plan to state government. Mr. Toft stated that the IEDC's plan had been forwarded to the Indiana Department of Commerce. He noted that in some other states, for example Oregon, state laws requires a more formal presentation of the strategic economic plans to state legislative committees. Senator Skillman commented on the very large amount of studies and other information that legislators receive, and she stated that it might be useful to clarify the lines of communication between the IEDC and state government. She also noted that the Indiana Senate had in the 1999 Session established a standing committee on economic development issues.<sup>9</sup>

Representative Bob Cherry pointed out that there did not seem to be anyone engaged in agriculture on the IEDC's board of directors.

Senator Skillman then recognized Senator Frank Mrvan. Senator Mrvan stated that the money from gaming would be vital to the economic development of certain areas in the state. He urged the Committee to include the issue of gaming in any studies the Committee undertakes.

Senator Skillman then announced that the next meeting of the Committee would be held at the Purdue University Research Park on August 24th. There being no further business, she then adjourned the Committee's first meeting.

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<sup>9</sup>Copies of the IEDC's report "Break Away Growth" are on file in the Legislative Information Center. See footnote 1.